EXHIBIT 12

TO: MICHAEL WILLDEN, DIRECTOR, DEPT HUMAN RESOURCES
STEVE ABBA, LEGISLATIVE COUNCIL BUREAU
THROUGH: CHARLES DUARTE, ADMINISTRATOR, DHCFP
FROM: COLEEN LAWRENCE, CHIEF PROGRAM SERVICES, DHCFP
SUBJECT: PHARMACY PROGRAM CONTROLS
DATE: 1/14/2003~~5/24/02~~
~~CC: MARY WHERRY, DEPUTY ADMINISTRATOR DHCFP~~

The Nevada Medicaid Drug Utilization Review Board held an interim board meeting on May 9, 2002 to discuss adding specific drug classifications to the payment authorization requests schedule. This meeting was held ~~called~~ as an initial step ~~on~~ for restructuring the pharmacy program to focus on quality healthcare, ~~which will also result in lowered~~ and cost control of program expenditures.

Each drug classification proposed for addition to the PAR schedule has specific clinical criteria guidelines (step therapy) that ensures appropriate and reasonable clinical decisions are being reviewed prior to the reimbursement of the drug. Development of coverage and indications was accomplished by utilizing a combination of best clinical practices, national guidelines and other Medicaid agency experience. Even though, the criterion emphasizes appropriate utilization and not the direct cost of the drug, reduced expenditures are a direct outcome of utilizing appropriate clinical guidelines.

The DUR Board voted to add Proton Pump Inhibitors (antiulcer drugs), COXII's (nonsteroidal anti-inflammatory drugs used primarily for osteoarthritis) and Viagra (for erectile dysfunction) to the list of drugs requiring payment authorization requests effective July 1, 2002. In the calendar year 2001 the state reimbursed providers the following amounts for each of these drug classifications:

- $3,893,154 Proton Pump Inhibitors (PPI)
- $2,015,157 COX II
- $188,130 Viagra

These costs represent roughly ten percent of the total pharmacy expenditures for 2001. According to ~~other states experience~~ reports from other states, there has been up to~~, an~~ approximately fifty percent reduction in expenditures for these drug classifications after ~~may be expected by~~ placing ~~these classifications~~ on an authorization schedule. Nevada Medicaid should experience similar benefits after instituting the authorization

schedule on the classifications. Many states are reviewing their Medicaid pharmacy programs ~~nationally are reviewing~~ to ascertain the utilization patterns associated with both PPI and COXIIs~~, due to their~~The review process is occurring because of current increase in utilization, inappropriate use of the medications, and the escalating cost of the drugs. ~~(Although Viagra was not a high cost item, the state needed to implement utilization controls for this classification. In a recent state survey, out of XXX responses, Nevada was the only state that did not have some form of utilization control on this drug.~~ WHY? CONTROVERSIAL? POLICY DRIVEN? YOU DON'T SAY EXCEPT THAT OTHERS DO IT.

The next step in restructuring the pharmacy program is a reduction in the pharmacy reimbursement from Average Wholesale Price minus 10% to AWP minus 13-15%. Our staff is scheduled ~~to meet~~ to negotiate the reimbursement with the National Association of Chain Drug Stores and retail representatives at the end of May. The reduction target date is July 1, 2002.

The pharmacy program continues to research methods to reduce, or at best control, the costs within the program. Because we are on verge of implementing the point of sale, all policy decisions need to be receptive to these changes. With this in mind, the next policy change will be to pilot maximum unit controls on specific drugs. Maximum units are based upon the drug manufacturer's highest dosage recommendation. Nevada Medicaid will publish the maximum units that will be introduced with the implementation of POS. Since, the online system is needed for the success of this utilization control only a few drugs will be enforced initially.

Finally, the pharmacy program is partnering with the State Board of Pharmacy to utilize the controlled substance reporting database to enhance Medicaid's monitoring of controlled substance abuse by our recipients. Activities are planned to coordinate interventions with the retrospective drug utilization review contractors.

If there are any questions, please don't hesitate to contact me at 684-3744. Thank you.

CC: MARY WHERRY, DEPUTY ADMINISTRATOR DHCFP